

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: Public Management, Financial Sector, and Trade Division, Southeast Asia Department

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| TA No., Country and Name TA 8156-MYA: Improving Fiscal Revenue Mobilization | | Amount Approved: \$ 225,000.00 Revised Amount: N.A. | |
| Executing Agency: Asian Development Bank | Source of Funding ADB Special Assistance Technical Fund (TASF-Others) | Amount Undisbursed: \$ 42,150.12 | Amount Utilized: \$ 182,849.88 |
| TA Approval Date: 16 August 2012 | TA Signing Date: 16 August 2012 | Fielding of First Consultant(s): 23 October 2012 | TA Completion Date Original: 31 August 2013 Actual: 30 November 2013 Account Closing Date Original: 31 August 2013 Actual: 31 March 2014 |
| <p>Description</p> <p>The technical assistance (TA) was part of a concerted set of initial TA support (other related TAs covered trade and business climate related issues) to the government in key economic sectors during the preliminary stages of the Asian Development Bank's (ADB) re-engagement with Myanmar following a suspension in country operations of about 25 years. Given Myanmar's pressing need for significant and sustained increases in investments in infrastructure and public services following decades of chronic underinvestment and its very low tax to GDP ratio,¹ reforms aimed at increasing fiscal space were essential to allow investment needs to be met on a sustainable basis. The TA focused on providing support in three main areas: (i) tax policy and administration, (ii) public debt management, and (iii) capacity development of the central bank. In addition to providing urgently needed advisory support, the TA also aimed to: (i) better inform ADB's understanding of sector constraints, (ii) help the government in crystalizing the reform agenda in the sector going forward, and (iii) determine the scope for possible future ADB assistance to the sector. Reforms supported under the set of TAs were also meant to contribute to broad-based economic policy dialogue and formulation of the first loan to Myanmar following re-engagement: <i>Support for Myanmar's Reforms for Inclusive Growth Program (Loan 2984-MYA approved on 14 January 2013)</i>.</p> <p>Expected Impact, Outcome and Outputs</p> <p>The TA's expected impact is improved fiscal space and its expected outcome is strengthened government revenue mobilization. Expected outputs include: (i) draft action plan for improved tax administration, and (ii) development and implementation of a public debt management strategy, and (iii) capacity development of the central bank.</p> <p>Delivery of Inputs and Conduct of Activities</p> <p>Formulation of the TA scope and implementation arrangements is assessed as appropriate. A focus on reforms aimed at improving fiscal space, reflected government priorities, and was clearly highly relevant given the new government's commitment to significantly increasing expenditure on infrastructure and public services while safeguarding macroeconomic stability. Notable in terms of implementation arrangements, was the establishment of a twinning arrangement between the Central Bank of Myanmar (CBM) and Bangko Sentral ng Pilipinas (BSP)—this allowed for a peer-to-peer approach to capacity development—allowing for central bank officials in Myanmar to learn from the successful and relatively recent experience of their fellow central bankers in the Philippines in building a modern central bank.² Terms of reference, likewise, were adequately formulated. While performance of consultants (2 international) fielded under the TA was not rated, work was satisfactory in terms of achieving the outputs and outcomes. Implementation of the TA was closely administered by ADB staff in Manila as well as the extended mission to Myanmar. Close collaboration with the Budget Department and Internal Revenue Department (IRD) of the Ministry of Finance (MOF) and with CBM (the main counterpart agencies) throughout implementation is reflected in the extent of adoption and ownership of TA inputs and recommendations. Performance of both government counterparts as well as ADB in processing and implementation of the TA is considered satisfactory.</p> <p>Evaluation of Outputs and Achievement of Outcome</p> <p>The TA provided for a diagnostic of the existing tax regime along with an action plan for improving tax administration—key recommendations included establishment of a large taxpayers office,³ transition to a value added tax over the medium term, and placement of long term TA advisors with the Internal Revenue Department (IRD) given the basic state of the existing tax regime and intensive nature of support needed for reforms over the near to medium</p> | | | |

¹ 4% in 2011. This ranks as among the lowest in the world. For comparison, Thailand's tax to GDP ratio in 2011 was 17.5%.

² BSP was established under a new law and charter in 1993. Peer-to-peer approach is aligned with ongoing initiative of the Steering Committee for Capacity Building of the ASEAN Central Bank Forum.

³ Aimed at providing one-stop shop services for large taxpayers to encourage tax compliance.

term. Support, including sharing of TA findings and recommendations, was closely coordinated with other development partners working in this area—including the International Monetary Fund (IMF). Given the IMF's role as the lead development partner on tax dialogue and its subsequent commitment of significant TA resources in this area, further ADB TA assistance was not programmed for tax reform. IMF follow-on support, in line with TA recommendations, included provision of long term resident advisors to support IRD on tax policy and administration reforms and with the establishment and operationalization of a large taxpayers' office.

The TA supported the conduct by MOF of its first debt management performance (self) assessment (DeMPA). The DeMPA provided the diagnostic foundation for the formulation of a systematic debt management reform plan and strategy. The reform plan and strategy, formulated in close collaboration with IMF, World Bank, US Treasury and the government, maps out short-, medium-, and long-term needs in this area and provides a common roadmap for coordinated support. In line with the plan, the TA provided capacity building support to the external debt division of MOF to strengthen its debt accounting and recording functions and support the establishment of a debt management division (DMD) within MOF as a single institutional focal point with responsibility for public debt management.⁴ Key reforms under the plan include establishment and operationalization of the DMD, drafting of a new public debt law, and the move to an auction-based system for issuance of government securities—all of which have now been accomplished with support from follow-on ADB TA requested by the government.

The TA support for a peer-to-peer approach to capacity building arrangement between CBM and BSP, was greatly appreciated by all parties concerned, and provided a channel for practical advice from fellow central bankers and the establishment of working relationships that endure beyond the TA.

The TA, both directly, and by leveraging its outputs through close collaboration with other institutions (e.g. IMF, BSP) during implementation has successfully contributed to targeted outcome of strengthened revenue mobilization and improved fiscal space. Total revenue as a percentage of GDP has doubled, increasing from 12% in FY 2011 to 24% in FY 2015 as has the tax to GDP ratio rising from 4% to 8% over the same period.

Overall Assessment and Rating

The TA is rated as successful based on completion of its main outputs and their contribution to achieving significant and ongoing results in terms of outcome and impact.

Notably, both tax and overall revenues have doubled over the past three years allowing for significantly increased fiscal space and marked increases in expenditure including a tripling of health and education budgets. This has been accomplished in parallel to major institutional reforms on the public debt management side as recommended by the public debt management reform plan—including the establishment of the DMD,⁵ a draft public debt law. Myanmar's deficit to GDP ratio has been consistently maintained at prudent levels (below 5%) from 2011 to 2015 and the IMF has classified the country for the past two years as being at low risk of debt distress. Satisfaction with the delivered outputs and outcome of the TA and strong demand for continued ADB support in public debt management and related areas were confirmed by the government counterparts during the recent (2015) country programming mission. This underscores another indirect but vital impact of this TA—its contribution to establishing ADB as a highly responsive, substantive, and trusted development partner within the context of a new and evolving relationship.

Major Lessons

Close coordination/collaboration with other development partners and institutions can allow for leveraging of TA outputs and strengthen achievement in terms of outcome and impact.

Recommendations and Follow-Up Actions

Continued dialogue with the Ministry of Finance on public debt management and identification of possible follow-on support under the upcoming policy-based loan for promoting private sector participation and related technical assistance is recommended.

Prepared by: Thatha Hla

Designation: Financial Sector Economist

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⁴ Responsibility for public debt management, at the time, was split between the Budget Department, MOF and CBM—with management of domestic debt handled by CBM and management of external debt handled by MOF—making it difficult for the government to obtain a consolidated picture of its debt position.

⁵ A cash management division has also been established as part of the new Treasury Department. This is being supported under parallel IMF TA which is coordinated with ADB support for the DMD.